

## CHAPTER 9

# ACCOUNTING CLASSIFICATIONS

Each year the Navy must have billions of dollars to carry out its mission. This money comes from the taxpayers of the United States as determined by the Congress.

The Navy must keep accounts to show the receipt and expenditure of public funds. Also for the amount of government money, materials, and property on hand, and the cost of all operations. These accounts are broken down by projects, programs, and other functional/subfunctional categories (i.e., budget classification, expense element, cost account codes, and object classes). All these function as part of financial management, which is necessary to make sure that government property and money are economically used in the public interest. Cost data assembled by the above methods are used for budget planning and justification.

This chapter explains how the Navy gets its money, and the procedures used to account for it.

As a Storekeeper, you need to know the types of accounting and their uses in the Navy. They are:

**APPROPRIATION ACCOUNTING**—tells how much money has been spent, how much is obligated, and how much is available under each appropriation or subdivision (e.g., operating budget). Thus, the Navy controls expenditures to keep them within the monetary limits established by the appropriation act.

**COST ACCOUNTING**—through which the Navy can accumulate all costs according to activity or unit, purpose, and type of expenditure.

**INVENTORY (STORES) ACCOUNTING**—which is used to maintain records of material and supplies on hand. These records provide the information necessary to prepare returns or reports.

**PLANT PROPERTY ACCOUNTING**—which is used to maintain records of all Navy-owned or Navy-controlled real property and equipment of a capital nature ashore.

**PAYROLL ACCOUNTING**—which is used to maintain records of payments to civilian and military personnel of the Navy.

For accounting purposes, Navy activities are designated either shore activities or operating forces.

As a general rule, shore activities perform all of the accounting functions listed above. In the interest of economy, large shore activities frequently perform some of these functions for the smaller activities.

If accounting is to be performed accurately, the correct accounting classifications must be assigned by the Originator of any document. This could be your job.

The Navy expends money from one of two major classifications, appropriations or funds. This chapter explains the purpose and use of the two classifications so that you have some understanding of what appropriations and funds are, and the difference between them.

The accounting performed to control expenditures is covered in another chapter.

## APPROPRIATIONS

An appropriation is an authorization by an Act of Congress to incur obligations for a specified time and purpose and to make payments out of the Treasury. It is in this form that the Navy receives money to pay for ships and the cost of their operation and maintenance. It also covers the cost of training, the pay for those who operate them, and the money to operate the shore establishment that supports the fleet.

## ACCOUNTING PERIOD

The accounting period of the Navy is the fiscal year. Fiscal year differs from the calendar year in that it begins on 1 October and ends on the following 30 September. The fiscal year is designated by the calendar year in which it ends. Thus, Fiscal Year 1996 began on 1 October 1995 and ended on 30 September 1996.

## TYPES OF APPROPRIATIONS

Three types of appropriations may be used in the Navy, depending upon the purpose for which they are issued. Most appropriations are for 1 fiscal year and are used to finance the normal operating costs of the Navy. Other types may be granted without a time limitation or for a specific period of time which is more than 1 year.

## **Annual Appropriations**

Annual appropriations generally cover the current operating and maintenance expenses of the Navy. They become available at the beginning of the fiscal year stated in the appropriation act. From that time on throughout the fiscal year, they may be either directly expended or obligated. An obligation occurs when an order is placed by an afloat unit or material is issued to an ashore activity, or similar transactions during a given period that requires future payments.

After the end of the fiscal year, the Navy must return any unobligated balance to the Treasury. Obligated funds remain available for an additional 2 years. At the end of the additional 2-year period, the balance remaining in the account. They are transferred to the successor "M" account. These funds represent unliquidated obligations less reimbursement to be collected. The successor "M" account is available for disbursement of appropriated funds.

## **Continuing Appropriations**

An appropriation is available for incurring obligations until the appropriation is exhausted or until the purpose for which the appropriation was made is accomplished. An appropriation without restriction to a fixed period is called a continuing appropriation or a no-year appropriation. Examples of continuing appropriations are Military Construction Navy and revolving funds such as the Defense Business Operating Fund.

Continuing appropriations become available for obligation and expenditure at the beginning of the fiscal year following the passage of the appropriation act. They may become immediately available if specified in the act. When the purpose of a continuing appropriation has been accomplished, the balance equal to the total of unliquidated obligations, less the total of reimbursements to be collected, is transferred to the successor "M" account. Any remaining unobligated balance is transferred to the surplus of the Treasury.

## **Multiple-Year Appropriations**

Multiple-year appropriations are generally made for purposes which require long lead time of planning and execution such as procurement of Aircraft and Missiles Navy and Shipbuilding and Conversion Navy. Multiple-year appropriations become available for obligation and expenditure at the beginning of the fiscal year designated in the appropriation act unless otherwise stated in the act. They are available for

incurring obligations only during the fiscal years specified in the act. However, they are available for the payment of such obligations for an additional 2 years thereafter.

At the end of the last fiscal year included in the appropriation, the appropriation expires for obligation purposes. The unobligated balance is transferred to the surplus of the Treasury. At the end of the 2 years following the expiration of obligation availability, the balance remaining in the account, representing unliquidated obligations less reimbursements to be collected, is transferred to the successor "M" account.

## **STATUS OF APPROPRIATIONS**

Three terms are used to designate the status of appropriations.

**CURRENT APPROPRIATION**—An appropriation which is available for incurring obligations during the current fiscal year.

**EXPIRED APPROPRIATION**—An appropriation that is no longer available for incurring obligations. It does remain available to liquidate existing obligations.

**LAPSED APPROPRIATION**—The undisbursed balance of an appropriation. It is no longer available for disbursement by the department is called a lapsed appropriation.

By way of explanation, let us follow an annual appropriation for Fiscal Year 1996 through the above terms.

Current appropriation 1 October 1995 to 30 September 1996. Available for obligation and disbursement. At the end of the fiscal year (30 September 1996) the Navy must return the unobligated balance to the Treasury.

Expired appropriation 1 October 1995 to 30 September 1997. No new obligations may be incurred. The obligated balance is retained and disbursements made to liquidate the obligations.

Lapsed appropriation 1 October 1997. No further disbursements may be made. The balance of outstanding unliquidated obligations remaining is transferred to a successor account which is available indefinitely for payment of obligations still outstanding.

## APPROPRIATION SYMBOLS

The Navy uses symbols to identify charges and credits made against each appropriation. Since you use these symbols often, it is important that you understand how they are constructed. The elements that make up appropriation symbol are shown in figure 9-1 and explained in the text that follows.

All appropriations assigned to the Navy are identified by "17" which is shown as the first two digits of the appropriation symbol.

The third digit identifies the fiscal year limitation of the appropriation. In the example, "5" designates Fiscal Year 1995. Continuing appropriations, which have no fiscal year limitation, are identified by an "X." A multiple-year appropriation is indicated by the first and last fiscal year that it is available for obligation; i.e. "5/6" indicates Fiscal Years 1995 and 1996.

The purpose of the appropriation is shown by the next four digits. The numerals "1804" shown above identify the appropriation for Operation and Maintenance, Navy. It is used for operation and maintenance expenses for both afloat units and shore activities. In the afloat area it includes repair parts, consumables, equipage, alterations, overhaul of ships, fleet training, and fuel. Ashore, expenses generally are for the cost of supporting fleet activities.

### SUBHEAD SYMBOL

An appropriation or fund subhead is a subdivision of an appropriation or fund. Subheads identify the budget activity (major program) and are designed by a four-digit numeric or numeric-alpha number. They are suffixed to an appropriation or fund symbol. The four-digit subhead symbol for the operation and maintenance appropriation identifies the major claimant and major program of the Five Year Defense Program (FYDP). The first two digits are the last two

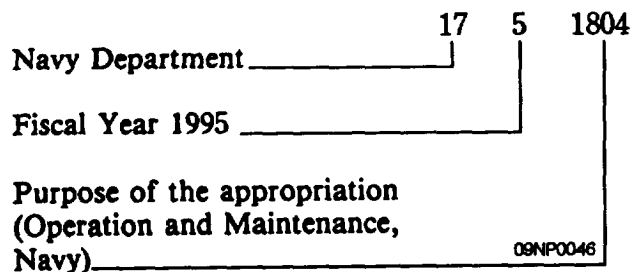


Figure 9-1.Example of a navy appropriation symbol.

digits of the major claimant's unit identification code. The third digit is the major program of the FYDP or budget activity. The fourth digit is a zero at the major claimant (fleet) level. Figure 9-2 is an example of a subhead.

Fleet commanders subdivide the fund authorization to subordinate commands in the form of expense limitations. The expense limitation holder is identified by an alphabetic or numeric character in the fourth position of the subhead. Figure 9-3 is an example of how a fleet commander subdivided a fund authorization.

## FUNDS

Funds fill a very important need in financing the day-to-&y operations of the Navy. Two types of funds, revolving and trust, are used extensively. You must understand how and why they are used. Funds are sums of money or other resources established for a specific purpose. They are usually without fiscal year limitations.

### REVOLVING FUNDS

A revolving fund is a fund established to finance a cycle of operations. Reimbursements and collections are returned to the fund for reuse to maintain the

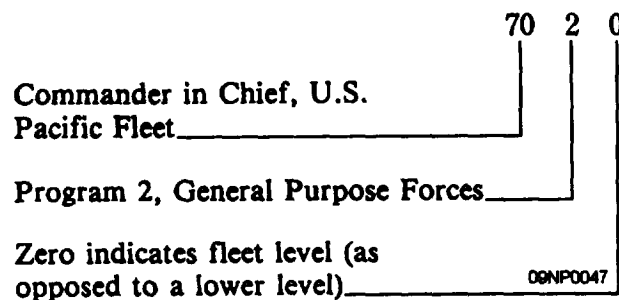


Figure 9-2.Example of a subhead to an appropriation.

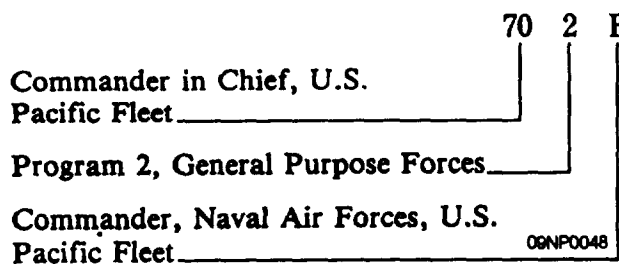


Figure 9-3.Example of a fund authorization subdivided to a subordinate command

principal of the fund. For example, loan funds and working capital funds. The capital amount of a fund may be in the form of cash, inventory receivables, or other assets.

## Defense Business Operating Fund

Of the several funds, the one that you will be most concerned with is the Defense Business Operating Fund (DBOF). It is not practical for each activity of the Navy to purchase all of its requirements directly from commercial suppliers using its operating money. It is for this reason that the DBOF exists. It provides the necessary capital to finance the purchase and maintenance of stocks of common supply items required by the Navy. Basic capital for the DBOF is made available from Congress. The total value of the DBOF is reviewed annually by Congress and adjusted to meet current requirements. Within the Navy, the Commander, Naval Supply Systems Command is the administrator of the DBOF.

**DBOF CHARGES**—The Defense Business Operating Fund is charged with the following:

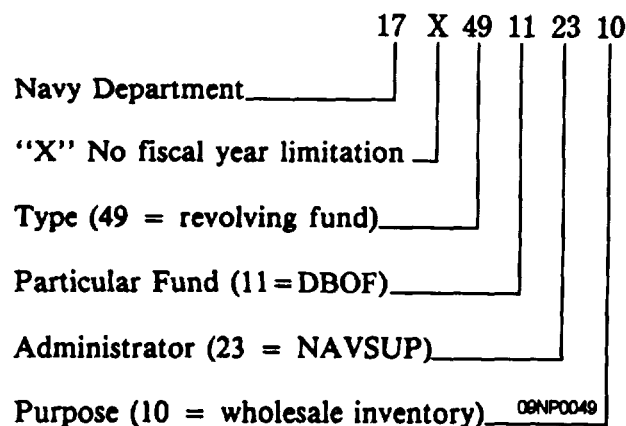
- Expenditures for the purchase or manufacture of stores, supplies, equipment, and services which are to be taken up in the Navy Stock Account (NSA).
- Appropriation adjustments lodged against the fund for sale of materials from a stores account to the Navy Stock Account. They are used for return “with charge” of material previously charged to an end-use functional account.
- Navy Stock Account losses by accounting, price adjustment, appraisal, inventory, sale, and survey, which are not properly charged to an appropriation.
- Donations of surplus NSA material for public health and educational purposes, including research.
- Authorized charges for repair of NSA material in store.
- Issues from the NSA of clothing items for health and comfort, when not chargeable to another appropriation.
- Payment of claims approved by the General Accounting Office (GAO).

**DBOF CREDIT**—The Defense Business Operating Fund is credited with the following:

- Issues from the NSA charged to an appropriation or fund.
- Cash sales from the NSA (including sales to other government departments and foreign governments),
- Sales from the NSA to other stores accounts.
- Collections from carriers for NSA material lost or damaged in transit.
- NSA gains by accounting, price adjustment, appraisal, inventory, sale, and survey which are not properly creditable to an appropriation.
- Reimbursements from the Defense Logistics Agency for the pro rata share of proceeds from sale of surplus, scrap, and salvage material expended from the NSA.

**DBOF SYMBOLS**—Symbols used in the elements that make up the DBOF serve the same purpose as those for appropriations. They identify charges and credits made against the DBOF. The symbols used in the construction of the DBOF consist of eleven digits. The first seven digits designate the department responsible for administering the fund; an indicator of fiscal year limitation, the type, and the particular fund. The other four digits compose the subhead. It identifies the command or bureau within the Navy responsible for administering this element of the fund and the purpose for which it is to be used. The meaning of each digit or combination of digits is shown in figure 9-4.

**DBOF Use**—DBOF fulfills its role as a revolving fund by purchasing designated supplies from commercial sources, Defense Logistics Agency, the General Services Administration, and the Departments of the Army and Air Force, and then selling them. These supplies maybe sold to a specific appropriation

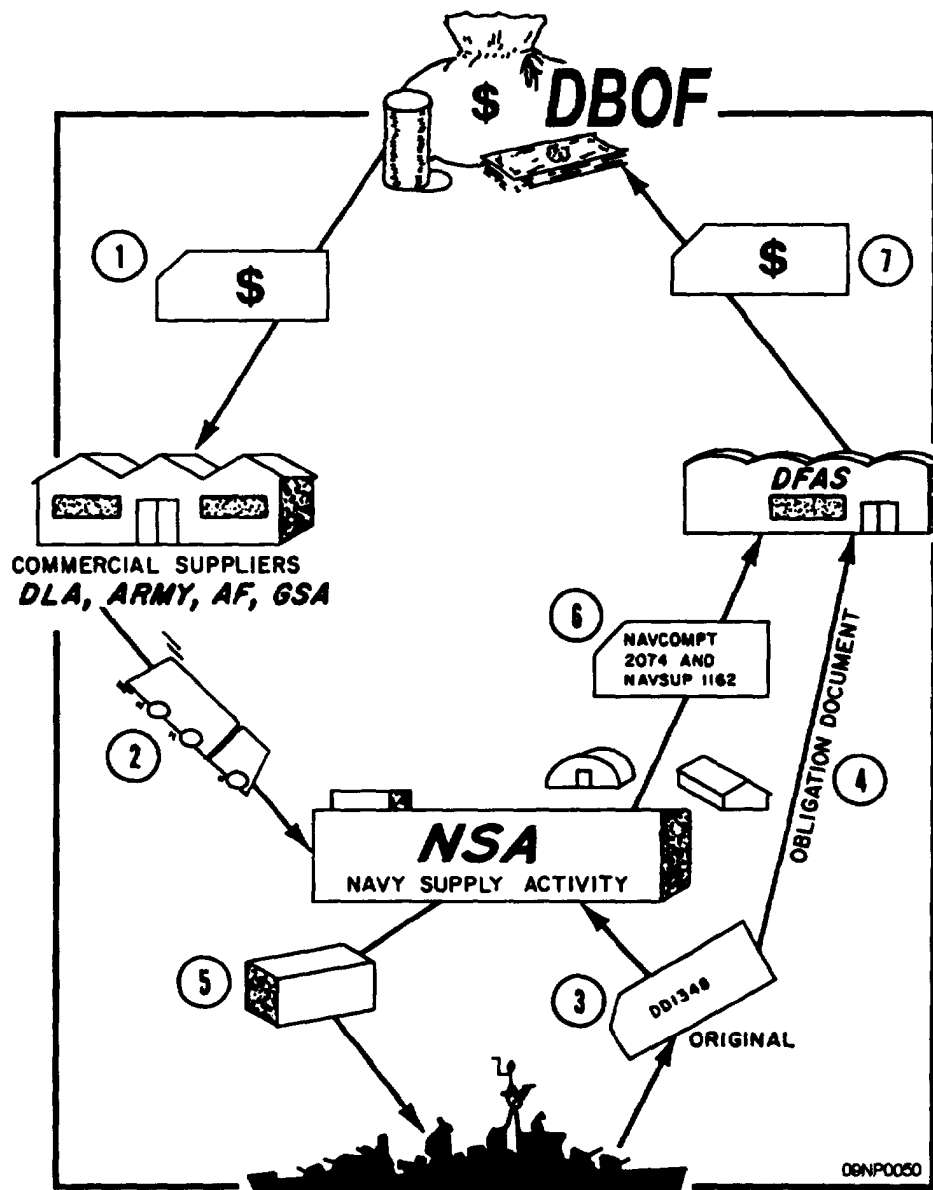


**Figure 9-4.**Example of a Defense Business Operating Fund symbol.

of the Defense Business Operating Fund and Navy Stock Account.

**NAVY STOCK ACCOUNT**—The Navy Stock Account (NSA) is an inventory account and an integral part of the DBOF. It serves as the “holding account” for DBOF procured supplies before to their sale. Thus, the total value of the DBOF consists of money plus supplies in the NSA. The NSA is also used by NAVSUP as the accounting device to account for and control the expenditure of DBOF funds.

DBOF/NSA IN OPERATION—Refer to figure 9-5 as you read the following steps covering the operation



1348, is submitted to the appropriate supply activity.

4. A ship forwards a copy of the requisition document (i.e., green copy of the DD Form 1348) to the appropriate DFAS for use in performing the ship's official OPTAR accounting. Monthly, the ship submits a Budget/OPTAR Report which summarizes the obligation documents. The report authorizes the DFAS to reduce the ship's OPTAR and the ship's type commander's operating budget.
5. The material is issued to the ship.
6. The supply activity submits "Report of Fired Authorization Charges, (NAVCOMPT Form 2074) with supporting "Financial Detail" cards, (NAVSUP Form 1162) to the DFAS. This authorizes the DFAS to charge the ship's OPTAR.
7. Credits the DBOF, thus completing the cycle.

The Defense Logistics Agency, General Services Administration and the Departments of the Army and Air Force have similar funds to finance procurement of materials managed by the respective agency or department.

### **Navy Industrial Fund**

The Navy Industrial Fund is a revolving fund used to finance industrial commercial-type activities. The Navy Industrial Fund serves much the same purpose as the Defense Business Operating Fund. The exception is that it is used to finance the cost of maintaining and operating such industrial commercial-type activities as naval shipyards. Major charges to the fund are civilian labor, material purchases, travel of personnel, transportation of material, cost of purchased utilities, and equipment and property rental. The fund is reimbursed through the sales of materials and for services performed for the Navy and other government agencies.

### **Naval Working Fund**

The Naval Working Fund provides a single permanent revolving fund for financing all work not chargeable to a current naval appropriation. It is used to receive advance deposits for work or services furnished. This type of work is performed by the Navy for other government departments, foreign governments, and private parties. For example, assume that the U.S. Navy had sailors from an allied

government embarked aboard U.S. Navy ships for training. The foreign government might deposit funds with the Navy to cover pay and allowances for their personnel. The money deposited would go into the Naval Working Fund and be assigned a deposit allotment number. Disbursing officers aboard the ships concerned would receive authorization to pay these foreign sailors and would be furnished the deposit allotment number to charge when making the payments.

### **Navy Management Fund**

This fund is used for the economical and efficient completion of Navy operations which are financed by two or more appropriations. When the costs of such an operation cannot be distributed changed immediately to an appropriation. An example of a charge financed by the Navy Management Fund is the shipment of household goods.

When the amount of money in the Navy Management Fund is not enough to finance a program some Navy organization or when appropriate, other government departments advance additional funds. The fund is credited with these advances, and it is charged with all expenditures required by the program. All unobligated balances of funds advanced are repaid later from the Navy Management Fund, as specified in contracts for programs financed by the fund.

## **TRUST FUNDS**

A trust fund is a fund held in trust by the Navy for use as specified in a special agreement or Act of Congress. Private parties or sources may provide money for a special trust for the Navy. For example, public contributions received for the purpose of constructing and maintaining the *USS Arizona Memorial* at Pearl Harbor.

The Ship's Store Profits, Navy is a trust fund for providing recreation and entertainment for enlisted personnel. Items sold in the ship's store are purchased by the DBOF and held in the NSA. When sold, the DBOF is reimbursed for their cost, with the profits going into the Ship's Store Profits, Navy fund.

## **FUND SYMBOLS**

The symbols for the various funds we have discussed are shown below in figure 9-6.

<u>Symbol</u>	<u>Title</u>	<u>Abbreviation</u>
17X4911	Defense Business Operating Fund	DBOF
17X4912	Navy Industrial Fund	NIF
17X4888	Naval Working Fund	NWF
17X6875	Navy Management Fund	NMF
17X8723	Ship's Store Profits, Navy	SSPN

Figure 9-6.-Examples of various fund symbols.

## ACCOUNTING FOR APPROPRIATIONS

The receipt and expenditure of a matter of public record that must be accounted for and when necessary justified. This is accomplished by the accounting classification system. The purpose of the system is to classify expenditures as to their type or purpose, and to designate the activity responsible for recording and maintaining official records of these expenditures.

An explanation of elements that make up the accounting classification system (commonly referred to as line of accounting) is given in the following paragraphs. Study the discussion of the system very carefully. It will be your responsibility to use the proper classification on procurement and expenditure documents that you prepare. See figure 9-7. We have previously discussed the appropriation and subhead we will begin with the next element in the line of accounting, the object class.

### OBJECT CLASS

Object class codes are three characters long, and are used only in OPTAR transactions which affect the international balance of payments. These codes are contained in *NAVCOMPT Manual*, Volume 2.

## OPERATING BUDGET (BUREAU CONTROL NUMBER)

The CNO has fiscal responsibility for the appropriation 1751804 for operation and maintenance of Navy forces. In discussing appropriations, you saw how they may be apportioned. The responsibility for administering the appropriation is shown by subhead. However, it is not possible for one office to efficiently control all charges to this appropriation. It is allocated to subordinate commands to administer.

For example, one of these commands is CINCPACFLT. It is still impractical for the one office to administer the appropriation to the hundreds of ships under command. Portions of the appropriation then, are granted to PACFLT TYCOMS (e.g., COMNAVSURFPAC, COMNAVAIRPAC, etc.) in the form of operating budgets. Operating budgets are identified by an operating budget number which is always the unit identification code (UIC) of the activity receiving the operating budget grant. For example, the operating budget number for a grant to COMNAVSURFPAC would be 53824.

## SUBALLOTMENT/OPERATION BUDGET SUFFIX

When a budget holder has two or more operating budgets, then a suffix is used to identify the different operating budgets. For example, CINCPACFLT receives two operating budgets. One for ship repair, the other for fuel. Both under operating budget number 00070 and subhead 702A. To identify the separate grants, CINCPACFLT assigns operating budget suffix code R to identify charges for ship overhaul and operating budget suffix code F to identify charges for ship's propulsion fuel.

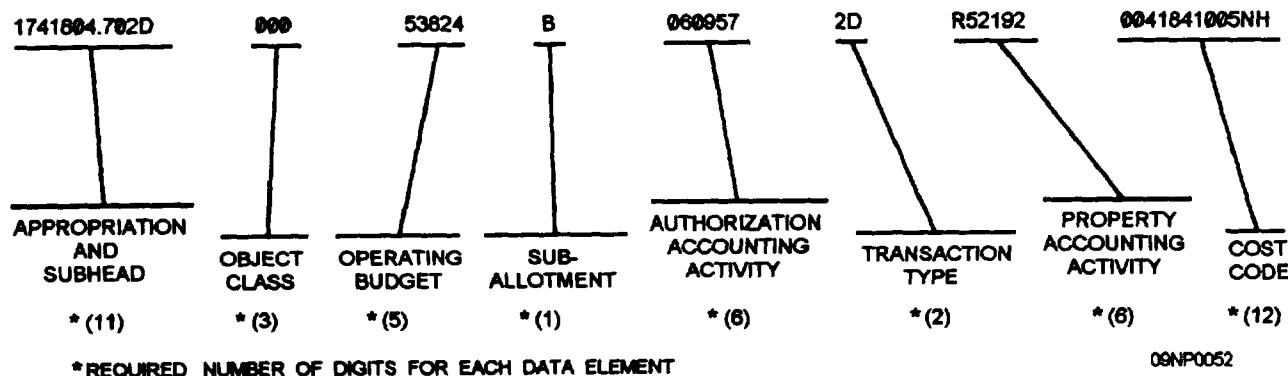


Figure 9-7.-Format of accounting data..

## AUTHORIZATION ACCOUNTING ACTIVITY

The Authorization Accounting Activity (AAA) is the UIC of the activity which performs the accounting for an operating budget/fund. In connection with operating form OPTAR accounting, the AAA is the UIC of the DFAS.

## TRANSACTION-TYPE CODES

Transaction-type codes are identified by a two-character code. This permits easy identification in data processing systems of stores accounting, travel advances, and other special interest category transactions. The codes and an explanation of their use are contained in *NAVCOMPT Manual*, Volume 2.

## PROPERTY ACCOUNTING ACTIVITY (PAA)

For the Operating Forces material or service requisitions, the service designator code and unit identification code (UIC) of the requisitioner will be shown. In these cases the PAA is used as an extension of the cost code. In some cases the UIC of an activity assigned to perform formal "stores" or "property" accounting is cited as the PAA. Unit identification codes (UICs) are assigned by the Comptroller of the Navy to ships, aircraft units, shore activities, divisions of shore activities, bureaus and offices, contractors' plants, and in some instances to functions or other specialized elements for identification.

UICs are prefixed by a service designator code. It is a Single-character code that identifies a service or element

of the service. The letters R, V, and N have been established to identify naval requisitioning activities.

All UICs currently assigned are listed in *NAVCOMPT Manual*, Volume 2. You should become familiar with this reference because you will have many occasions to use it. Assume, for example, you are transferring stores to another ship. You must know the unit identification code in order to show it on the expenditure document so that the receiving ship will be charged. Remember, it is the responsibility of the ship or activity preparing the accounting papers to make sure that the UIC is correct.

## COST CODE

The cost code consists of 12 characters and may be alphabetic, numeric, or both. This code provides information to further classify transactions or in some cases, aid in identifying a specific transaction. In most cases the information to be used for this data element is determined locally by the administrator of the funds in conjunction with the accounting activity. *NAVCOMPT Manual*, Volume 2, provides information on the structure of cost codes based on the purpose for which used. The cost code in figure 9-7 is the most common code structure used by afloat units in requisitions for material and services. The cost code consists of two zeros followed by the four-digit Julian date, the four-character serial number and the two-character fund code. As you will be using fund codes almost daily, a further explanation is provided.

<u>TYCOM</u>	<u>FUND CODE</u>	<u>PURPOSE</u>
COMNAVSURFPAC	NC	TO PROCURE NSA TYPE CONSUMABLE MATERIAL. THIS INCLUDES ADMINISTRATIVE AND HOUSEKEEPING ITEMS, COGNIZANCE SYMBOL 11 MATERIAL (FORMS), ROUTINE MAINTENANCE TOOLS NOT SPECIFICALLY RELATED TO, BUT WHICH MAY BE USED IN, THE REPAIR OF EQUIPMENT AND EQUIPAGE; GENERAL PURPOSE HARDWARE, OR ANY OTHER ITEM HAVING A LIMITED LIFE AND NOT SPECIFICALLY INCLUDED IN ANOTHER EXPENSE ELEMENT.
COMSUBPAC	MC	SAME AS ABOVE
COMNAVAIRPAC	YC	SAME AS ABOVE

09NP0053

Figure 9-8. Fund codes assigned to units of the Pafic Fleet.



## **Fund Codes**

As stated above fund codes consist of two characters. The first character identifies the FYDP and the operating budget holder. The second character identifies the type of material or service procured.

Figure 9-8 shows examples of fired codes assigned to units of the Pacific Fleet. Consult NAVSO P3013 for a complete listing of all fund codes and the cross-reference guide that crosses fund codes to appropriations.

